MANCHOUKUO TODAY

NO. 5

FINANCE, COMMERCE AND TRADE

Foreign Office

Hsinking, Manchoukuo

1940

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FOREIGN OFFICE
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FINANCE, COMMERCE AND TRADE

I. FINANCIAL PROGRESS IN MANCHOUKUO

Manchoukuo, which was founded no more than eight years ago, has made striking progress in the economic sphere, as in other departments of national activity. On the completion of the first period of national construction, and in view of the internal and external situation, the Five Year Industrial Program aiming at the development of national resources and the expansion of productive capacity was introduced, followed by the adoption of the northern frontier development plan and the land settlement scheme. These gigantic enterprises, since revised, are now being carried out in an energetic manner. The outbreak of the European War in September last year involved an inevitable repercussion on the economy of Manchoukuo, but measures were immediately adopted to cope with the situation, and now a cooperative economic bloc comprising Manchoukuo, Japan, and China is being steadily consolidated.

In the sphere of agriculture, a comprehensive scheme for increased production on the cooperative basis of Manchoukuo, Japan, and China has already been framed, while in the field of industrial development the policy of concentrating on important branches has been established for the sake of greater efficiency. The basic economic-industrial policies, coupled with measures for

the adequate supply of commodities, stabilization of prices and adjustment of foreign trade, are producing satisfactory results. In the sphere of finance and banking, while ensuring the smooth circulation of money, measures for the control of funds, encouragement of saving, and regulation of the purchasing power are being enforced in conformity with national policies.

1. INDUSTRIAL EXPANSION

The current situation in East Asia and in the world at large demands the realization of an economic unit comprising Manchoukuo, Japan, and China. The enormous natural resources of Manchoukuo, hence her immense industrial potentiality, supplies the basis for the establishment of an economic autarchy in East Asia. In these circumstances, the program for the expansion of productive capacity of Manchoukuo has acquired a new significance. The economic strides that are being made by Manchoukuo are sufficiently indicated by the sharp increase in the amount of investments.

Surveying the growth of Japanese investments in Manchou bonds and company debentures since 1937, the first year of the Five Year Industrial Program, we note that the annual amount, which was 109,000,000 yuan in 1937, increased to 296,000,000 yuan in 1938, rising to 834,000,000 yuan in 1939. The annual total of investments, including payments on subscribed shares and advances in the nature of investments in securities, rose from 346,000,000 yuan in 1937 to 431,000,000 yuan in 1938, and to 1,103,000,000 yuan in 1939. Japanese capital, both State and private, thus invested in mining, manufacturing, transport, and other important enterprises in Manchuria, is developing the productive power of the country to a striking extent.

There is, therefore, a rapid increase in the number

of new companies established and existing companies carrying out capital increases. At the close of 1939, the companies of various descriptions numbered 4,230, with total authorized and paid-up capitals of 4,352,000,000 yuan and 3,337,000,000 yuan respectively. The expansion has been particularly rapid during the last few years. The index of paid-up capital registered 226 on December 31, 1939, compared with the base figure of 100 for December 31, 1936.

TABLE I.

Annual Investments of Japanese Capital in Manchou National Bonds and Company Debentures

(In 1,000,000 yen)

	Total Amount	Nation Bonds	S.M.R. Debentures	Bank Debentures	Other Company Debentures
1933	163	30	125	—	8
1934	196	10	160	—	26
1935	234	60	155	—	39
1936	348	60	255	—	33
1937	109	45	56	—	8
1938	296	50	180	10	56
1939	834	200	230	20	384

TABLE II.

Net Increase in Japanese Investments

(In 1,000 yen)

	1932	1933	1934	1935
Payments on Subscribed Shares	37,388	116,665	61,425	54,722
Company Debentures and Loans	63,775	(—)27,177	188,725	169,665
National Bonds and Loans	—	30,000	10,000	58,000
Total	121,163	112,338	278,170	366,106

	1936	1937	1938	1939
Payments on Subscribed Shares	80,593	140,863	153,897	284,372
Company Debentures and Loans	187,278	130,050	176,044	734,341
National Bonds and Loans	56,000	75,360	101,040	85,000
Total	231,471	346,273	430,981	1,103,713

TABLE III.

Paid-up Capital of Companies in Manchuria

(In 1,000 yen)

	Amount	Index
1932	737,520	40
1933	991,425	67
1934	1,172,127	79
1935	1,262,630	85
1936	1,472,854	100
1937	1,649,028	111
1938	2,574,699	174
1939	3,337,619	226

Investments in Manchuria increased in the manner indicated above. The greater part of the new capital was applied to heavy industries. In spite of the difficulties encountered in securing machinery, labour, and technical skill, remarkable progress has been attained, through the organization of producing and distributing machinery, in the production of coal, iron ore, pig iron, steel, electric power, cement, etc. The index of production registered 211 in 1937 and 250 in 1938, against the base figure of 100 for 1932, as indicated in the following table:

Index of Production

1932	100
1935	139
1936	185
1937	211
1938	250

The outbreak of war in Europe in the latter part of 1939 created difficulties for the importation of machinery and material. The industrial program was therefore submitted to re-examination, and the principle adopted for concentrating on important industries

for the sake of greater efficiency. Regarding the four branches of steel and iron, coal, liquid fuel, and non-ferrous metals, a new Five Year Program ending in 1943 was adopted—a plan which is now in course of execution.

In the matter of gold production, regulations for subsidizing gold mining were put into force in December, 1939, and the encouragement and protection thus afforded are sure to result in a larger production of gold. Regarding the supply of labour, the labourers who entered Manchoukuo during last year were twice as many as those for 1938. In the building trade and civil engineering, 1939 was a fairly prosperous year, the contracts concluded up to October inclusive totalling 375,000,000 yuan in value. The foreign trade of the country, which continued to rise by leaps and bounds, aggregated 2,600,000,000 yuan in 1939; while the railways operated by the S.M.R. reached 10,000 kilometres in October, 1939. What has been stated above may be tabulated as follows:

	1932	1933	1934	1935
Labourers Introduced into Manchoukuo (In 1,000 persons)	372	568	627	423
Building and Civil Engineering Contracts (In 1,000 yuan)	57,566	104,078	154,632	149,871
Railways under Operation (In kilometres)	6,025	6,162	7,010	8,100
Freight Carried (In metric tons)	25,890	28,287	34,665	37,410
Foreign Trade (In million yuan)	955	964	1,041	1,025
	1932	1933	1934	1935
Labourers Introduced into Manchoukuo (In 1,000 persons)	358	319	492	853
Building and Civil Engineering Contracts (In 1,000 yuan)	135,673	161,982	292,823	375,000

Railways under Operation ..... (In kilometres)	8,756	9,455	9,943	10,234
Freight Carried ..... (In metric tons)	142,112	48,516	54,086	—
Foreign Trade ..... (In million yuan)	1,294	*1,532	2,000	2,609

II. FINANCIAL ACTIVITIES

The remarkable activities in the industrial field were accompanied by equal activities in monetary circles, with solid progress attained. At the close of 1939, deposits at the various financial institutions in Manchuria (including Kwantung Territory) totalled 1,875,000,000 yuan, while loans aggregated 2,398,000,000 yuan, showing an increase of 67 per cent in deposits and 86 per cent in loans, compared with the figures for 1938. The gain in deposits indicated economic expansion, larger earnings of the people, and stability in livelihood, as well as the permeation of the spirit of saving. As, in proportion to the progress of the industrial program and the northern frontier scheme, the disbursements of Government funds increased in volume, it was necessary to encourage saving and regulate the purchasing power of the people. In view of this necessity, the Government, in cooperation with the Concordia Association, started a national campaign for saving, with the five hundred million yuan as the goal of effort. Other measures adopted included the prohibition of depositing money with commercial houses, raising of interest on deposits, reduction in the maximum interest allowed for private loans, increased establishment by financial institutions of offices receiving deposits, prolongation of business hours, etc. As a result of these measures, post office savings, for instance, came to exceed 100,000,000 yuan, a remarkable achievement compared with 200,000 yuan, the amount for 1934. Other

deposits also showed satisfactory results. Including the re-investments by business companies of reserve funds, the savings campaign realized its program to the extent of 85 per cent. For re-absorbing floating funds, efforts were made for stimulating the sale of lottery tickets, savings debentures, and national bonds, while the security market was reorganized for facilitating the diffusion of securities as well as the conversion of securities into funds. The Government measures also included the establishment of the Savings Department in the Central Bank of Manchou.

The increase in loans was chiefly due to the brisk demand for funds applied for industrial development and expansion of productive power, which form the vital point in the economic policy of Manchoukuo. Even in the absence of special circumstances, increased loans are quite natural in a new country where industries are developing in quick tempo. However, for utilizing the available funds to the best advantage, the Government took steps to restrict advances for non-essential enterprises and to prohibit improper loans. In the early part of the present year, the Government strengthened the Provisional Act for the Control of Funds by introducing more stringent control on the establishment of new companies, capital increases of existing companies, loans of financial institutions, and by restricting company dividends and making them subject to Government approval. However, as a clear index of prosperity in financial as well as in industrial circles, the bills cleared at the six Clearing Houses in Manchuria during the latter half of last year totalled 4,078,000,000 yuan in value, a gain of 720,000,000 yuan over the same period of the preceding year.

Under the new Banking Act, ordinary banks are also receiving guidance and assistance of the Government. Seven such banks have carried out capital in-

creases with government assistance. At the close of 1939 cooperative credit associations reached 145 in number, with deposit balances and outstanding loans amounting to 39,000,000 yuan and 60,000,000 yuan respectively. The highest figure for outstanding loans during the latter half of 1939 was 125,000,000 yuan, an increase of 110 per cent compared with the same period of the previous year.

Such credit organs as credit unions, credit associations, mutual credit associations, and pawn establishments are also making progress. The Tahsing Kungssu, which handles more than half the pawn business, has recently increased its capital from 6,000,000 yuan to 20,000,000 yuan, to facilitate credit for the common people.

Reflecting the financial conditions above described, the highest and lowest amounts of currency issue (including coins) of the Central Bank registered 670,000,000 yuan and 405,000,000 yuan respectively, during the second half of 1939, an increase of 213,000,000 yuan in the highest amount and 119,000,000 yuan in the lowest amount, compared with the same period of 1938; while the average currency issue during the second half of 1939 was 484,000,000 yuan, which represented a gain of 158,000,000 yuan over the same period of 1938.

Regarding foreign currency funds, control was strengthened by successive stages and the foreign exchange business concentrated in the hands of the Central Bank, with a view to an economical and efficient use of such funds; while for replenishing foreign currency holdings, the Foreign Trade Control Act was enforced and trade agreements utilized. On the outbreak of war in Europe, Japan-Manchoukuo cooperation in foreign exchange was made more intimate; at the same time, efforts were put forth for cultivating new markets in other regions.

Bank Deposits and Loans In Manchuria, Including Kwantung Territory

(In million yuan)

	Deposits	Index	Loans	Index
1935	647	81	473	85
1936	791	100	674	100
1937	812	102	768	118
1938	1,107	139	1,205	178
1939	1,875	237	2,398	355

The above figures include those for various credit organs.

Deposits and Loans, December 31, 1939

(In 1,000 yuan)

(I) Institutions in Manchoukuo	Business Places	Deposits	Loans
Central Bank of Manchou	144	715,221	864,539
Industrial Bank of Manchou	45	542,313	700,422
Ordinary Manchoukuo Banks	182	101,900	98,729
Japanese Banks	10	54,110	152,695
Chinese Banks	19	11,391	12,797
European and American Banks ...	4	16,159	7,034
Cooperative Credit Associations ...	376	39,762	60,064
Credit Unions	48	5,793	11,222
Credit Associations	14	15,408	9,714
Manchoukuo Postal Savings	658	102,730	—
Japanese Postal Savings	127	34,574	—
Mutual Credit Companies	20	5,843	9,450
Total	1,647	1,555,300	1,926,571
Total for Previous Month	1,594	1,249,035	1,686,401
Same Month, Previous Year	1,032	873,070	923,844
Increase over Same Month, Previous Year	615	682,229	1,002,727
(II) Institutions in Kwantung Territory			
Central Bank of Manchou	1	10,673	6,650
Industrial Bank of Manchou	8	116,378	90,049
Chinese Banks	4	5,675	2,076
Japanese Banks	9	148,563	357,025
European and American Banks ...	2	3,954	4,119
Credit Associations	11	10,977	355
Postal Savings	44	24,225	—
Mutual Credit Companies	3	—	2,529

Total	82	320,448	471,807
Total for Previous Month	83	311,137	438,990
Same Month, Previous Year	72	234,679	281,322
Increase over Same Month, Previous Year	10	85,768	190,484
Grand Total	1,729	1,875,748	2,398,379
Grand Total for Previous Month	1,607	1,560,173	2,125,391
Grand Total for Same Month, Previous Year	1,104	1,107,750	1,205,167
Increase over Same Month, Previous Year	625	767,997	1,193,212

Bills Cleared at Six Clearing Houses in Manchuria, Including Kwantung Territory

	Number of Bills	Value (In 1,000 yuan)
1939, July	156,000	587,000
August	163,000	657,000
September	170,000	632,000
October	176,000	658,000
November	170,000	651,000
December	246,000	890,000
Total	1,083,000	4,078,000
Total for First Half, 1939	886,000	3,357,000
Total for 1939	1,970,000	7,436,000

Currency Issue of Central Bank of Manchou

(In million yuan)

	Highest Amount	Lowest Amount	Average	Coins (Year-end)	Percentage of Cover
1932	151	133	144	2	51.3
1933	155	103	123	2	52.3
1934	168	97	119	15	44.4
1935	179	108	136	20	51.6
1936	257	125	159	20	69.7
1937	317	171	211	27	67.7
1938	430	254	288	27	50.8
1939	636	552	594	33	51.9

III. FINANCIAL INSTITUTIONS IN MANCHOUKUO

Soon after the inauguration of Manchoukuo, the Government set about rehabilitating the monetary system in Manchuria, which was in a state of confusion. In June, 1932, the Central Bank of Manchou was established, and in the following year the Banking Act was promulgated. Under the same act, the existing monetary institutions of different kinds were reorganized, and smaller banks consolidated. At the same time, cooperative credit associations were established as organs for the common people; while the existing credit associations and credit unions were improved and expanded. Much attention was also paid to the organization of the pawn business, with the Tahsing Kungssu as the nucleus. Finally, with the establishment of the Industrial Bank of Manchou in December, 1936, the financial system of Manchoukuo came to assume a modern form.

The abolition of extraterritoriality completed in December, 1937, Japanese banks in Manchoukuo were placed under the financial jurisdiction of the Hsinking Government, which now exercised complete control over the monetary organs within the country. In September, 1938, the Manchurian Bankers' Association comprising the financial organs also in Kwantung Territory was instituted. Further, in December, 1938 a new Banking Act was promulgated, strengthening the monetary system of the country.

In this manner, the financial system in Manchoukuo was built up, under the control of the Government and with the Central Bank as the pivot of the whole system. There are now more than sixty ordinary banks granting short term commercial credit, while the Industrial Bank of Manchou is catering to the needs of industrials by extending long term credit. Between these two kinds of institutions there are interposed various organs for the common people.

Financial Organs in Manchuria

I. Banks.		
	a. Special Banks	Industrial Bank of Manchou Central Bank of Manchou
	b. Ordinary Banks	Ordinary Manchoukuo Banks (45 in number) Ordinary Foreign Banks 1. Japanese Banks 18 2. Chinese Banks 5 3. European and American Banks 3
II. Organs for Common People		Cooperative Credit Associations 145 Credit Associations ..... 25 Credit Unions ..... 39 Pawn Estalishments 1. Tahsing Kungssu ..... 338 2. Others ..... 719 Mutual Credit Companies ... 15
III. Business Corporations Extending Credit		Manchuria Mining Development Company Manchuria Land Settlement Company Man-Sen Development Company Manchuria Building Company Manchuria Mining Development Company Manchuria Forestry Company Manchuria Life Insurance Company Manchuria Fire and Marine Insurance Company
IV. Post Offices		Manchoukuo Office ..... 540 Japanese Offices 171
V. Subsidiary Financial Organs		Clearing Houses ..... 6 Stock Exchanges ..... 2 Manchuria Industrial Securities Company

A. Central Bank of Manchou. The Central Bank of Manchou was established as a bank of issue in June, 1932, in accordance with the Central Bank Act and the Act for the Organization of the Central Bank, with authorized capital of 30,000,000 yuan (half paid-up). The principal functions of the Bank are to act as the agent for the Treasury and local bodies, regulate the circulation of currency, ensure its stability, and exercise monetary control. But in view of the conditions in Manchoukuo, it also engages in ordinary banking business, granting agricultural, industrial, and commercial credit.

The Central Bank has its head office in Hsinking, branches in Mukden, Kirin, Tsitsihar, and Harbin, 36 agencies and 4 offices in different parts of Manchuria. In countries outside Manchuria, there are several branches: one in Tokyo to take care of connections with Japan, another in Kalgan, a third in Tientsin, a fourth in Peking, to look after the monetary and economic relations between Manchoukuo, Mongolia, and China.

The Central Bank, which opened its business in July, 1932, unified the monetary system of Manchoukuo and stabilized its currency. Besides keeping accounts for the Treasury and discharging other business entrusted by the Government, the Bank is also acting as an agency for the Bank of Japan, this after the withdrawal of the Bank of Chosen from Manchuria. With the progress of "emergency" finance, the mission of the Bank has become more important than ever. In August, 1938, the Provisional Bureau for Foreign Exchange was established in the Bank to undertake the centralized management of foreign currency resources. In October, 1938, when the Provisional Act for the Control of Funds took effect, the Bank became the agency for its enforcement. In January, 1940, the Saving Department responsible for the employment of national savings was added. The business of the Bank has continued to show satisfactory progress, enabling it to begin the payment of contributions to the Government from the end of 1938. The principal items in the accounts of the Central Bank are as follows:

Principal Items in Accounts of Central Bank

(In 1,000 yuan)

	1934	1935	1936	1937
Capital				
Authorized	30,000	30,000	30,000	30,000
Unpaid	15,000	15,000	15,000	15,000
Reserve	777	1,380	2,080	2,880
Note Issue	168,000	178,656	254,443	307,490
Loans from Gov't	20,669	18,000	16,000	14,000
Deposits	101,310	151,935	225,582	265,580
Gov't	51,210	73,735	113,576	133,096
General	50,100	78,200	112,006	132,484
Advances	165,093	171,001	197,360	212,569
Gov't	24,600	52,946	61,700	36,855
General	140,493	28,055	135,660	175,714
Securities	58,973	60,050	88,588	194,135
	1938	1939	1932	1933
Capital				
Authorized	30,000	30,000	30,000	30,000
Unpaid	15,000	15,000	22,500	15,000
Reserve	3,780	9,033	—	285
Note Issue	425,738	623,621	151,865	129,224
Loans from Gov't	13,000	10,000	21,212	18,265
Deposits	386,849	752,349	50,291	71,527
Gov't	164,631	455,374	16,751	32,853
General	222,218	296,975	33,540	38,674
Advances	419,999		123,928	103,899
Gov't	109,493	390,086	23,500	19,100
General	310,504	332,468	100,428	84,799
Securities	323,950	417,368	44,709	50,320

B. Industrial Bank of Manchou. The Industrial Bank of Manchou was organized as a special institution in December, 1936, in accordance with the Industrial Bank Act. The chief function of the Bank is to supply long term credit for industrial purposes; it also engages in general banking business. It has an authorized capital of 30,000,000 yuan, half of which is paid up. In view of its special mission, the Bank is endowed with the privilege to issue debentures to the extent of 15 times the amount of its paid-up capital. In case debentures are issued outside Manchoukuo, the

Government guarantees the payment of both capital and interest.

At the close of 1939, the Industrial Bank had 53 business places in Manchuria. The business of the Bank has continued to make rapid strides, the deposits balances reaching 667,000,000 yuan at the end of 1939. The rate of increase has been remarkable. The gain in the deposits of industrial funds is chiefly responsible for the above result; but deposits in the nature of savings are by no means small in amount, a fact which testifies to the efficacy of the savings campaign. The loans amounted to 790,000,000 yuan on December 31, 1939, a large expansion due to the increased loans for mining and manufacturing industries. These industries accounted between them for 378,000,000 yuan.

The industrial debentures issued by the Bank as sources for financing industries are not so large in amount; but still the first batch of industrial debentures amounting to 10,000,000 yuan was issued in Japan in September, 1938, followed by the second and third issues, each of the same amount, during last year. Also, since 1938, Manchuria savings debentures have been issued five times. Each of these issues met with excellent reception. The Industrial Bank of Manchou has a subsidiary in the Manchuria Industrial Securities Company, an agency for the sale of industrial and savings debentures as well as for security business in general. Further, in cooperation with the Manchuria Security Exchange, the Industrial Bank is making efforts for building up the security market in Manchuria.

Principal Items in Accounts of Industrial Bank of Manchou

(In 1,000 yuan)

	1937	1938	1939
Capital: Authorized	30,000	30,000	30,000
Unpaid	15,000	15,000	15,000

Reserve	350	1,535	2,795
Industrial Debentures		10,000	30,000
Deposits	243,478	384,664	558,222
Industrial Reserve	792	3,486	10,469
Borrowings	94,521	113,724	263,366
Loans	258,995	412,419	738,825
Securities	81,203	120,616	115,942
Cash on Hand and Deposits at Notice	15,242	10,865	15,639

C. Ordinary Banks. During the old regime, the ordinary banks in Manchuria were in a primitive stage of development, owing to the confusion of the currency and the extortions of the war lords. After the establishment of Manchoukuo, that is, in September, 1933, the first Banking Act framed on modern lines was promulgated to rehabilitate the monetary organs in Manchoukuo and to safeguard the depositors. Under that act, the existing institutions were also required to apply for the approval of the Government. After examining the business conditions of these institutions, the Government gave approval to 65 banks. This was the first step for the reorganization of financial institutions. The Government has continued to assist the monetary organs for rationalization and capital increases. At the same time, in order to prevent the concentration of funds and to further the development of local industries, the authorities concerned assisted in the establishment of local banks, beginning with the establishment of the Yinkow Commercial Bank. The new Banking Act went into force in January, 1939. This act fixes the minimum capital of financial institutions and imposes the obligation upon them to provide a reserve of a definite percentage against deposits, thus ensuring the sound development of monetary institutions.

D. Financial Organs for Common People. In Manchuria, where by far the greater portion of the population is agricultural, financial organs for the common people, especially for the farmers must play a highly important part. During the old regime, however, there were few such organs except for pawn establishments and Japanese credit associations. Since the inauguration of the new State, cooperative credit associations and the Tahsing Kungssu, etc., were newly established. Reorganization has been and is to be effected also in this sphere. The cooperative credit associations above mentioned are to be shortly divided into rural and urban associations, and the former to be amalgamated with agricultural development cooperative associations.

Cooperative Credit Associations

	Associations	Members	Capital	Deposits	Loans
1934	13	15,000	157	456	1,746
1935	82	86,000	464	2,102	6,327
1936	103	142,000	761	5,783	8,904
1937	107	234,000	1,216	11,133	15,098
1938	126	514,000	2,029	19,829	27,152
1939	145	1,345,000	3,930	39,762	60,064

II. THE FOREIGN TRADE OF MANCHOUKUO

The nature of the export and import commodities as revealed in the foreign trade returns of any country are by and large determined by the economic development of that country. This holds true in the case of Manchoukuo, essentially an agricultural country, which still retains in her economic and social structure the vestiges of a pre-capitalistic system belonging to the days before her rise to statehood. Thus, staple products, in particular soya beans, king crop of Manchoukuo, constitute the backbone of Manchoukuo's exports.

The chief imports have invariably been daily necessities and consumers' goods, requisites for maintaining

the productive and labour power of agrarian Manchoukuo. The history of half a century of Manchoukuo foreign trade reveals the annual exchange of commodities, essentially colonial in nature. The import of military supplies for the needs of local war lords, and of production materials for the use of the South Manchuria Railway Company during this period was comparatively unimportant. However, the establishment of the state of Manchoukuo, following the Manchuria Incident brought about epochal changes in the pre-capitalistic productive and foreign trade activities of the country.

The influx of Japanese capital and the importation of capitalistic methods of production and production processes, abruptly gave rise to highly developed enterprises centering around military needs in the hitherto semi-feudalistic industrial world of Manchoukuo and inevitably brought about astonishing changes in the munitions industries, especially in the realm of heavy industries. Parallel with the influx of capital, the tremendous increase in the unavoidable importation of production materials provided the principal cause for Manchoukuo changing overnight from a country with a traditional export excess to a country with an import excess. In this way, with the Manchuria Incident as a turning point, the nature of the foreign trade of Manchoukuo changed both in volume and in kind.

In 1932, the year of the establishment of Manchoukuo, imports of production materials did not exceed 70,000,000 yuan. But by the year 1939, they had increased three-fold to the astonishing figure of 220,000,000 yuan. The institution in 1937 of the Five Year Industrial Expansion Program, aimed at expansion of productive power, together with the far reaching revisions made in this plan following the outbreak of the China Incident in July of the same year, served to boost the importation of production materials necessary for

the organization of the national structure on a war-time basis, and to effect the adoption of production expansion measures vital to the national life.

Accompanying the importation of production materials and consumers' goods, the strengthening of the import permit system on the basis of state control over foreign exchange and foreign trade served to increase Manchoukuo's reliance upon Japan, at the same time spurring the exportation of agricultural products, principally soya beans, to Japan. This tendency for imports from Japan to increase, since the establishment of Manchoukuo has, needless to say, been the principal reason for the spectacular increase in Manchoukuo's import excess.

The tremendous increase in trade with Japan as well as the recovery of trade with China are the main factors, involved in the increased volume of Manchoukuo's foreign trade. This is a concrete manifestation of Manchoukuo's progress towards independence in her productive activities within the yen bloc, based, in the main, on the unified wartime structures of both Japan and Manchoukuo.

However, the changes made in Manchoukuo's wartime structure to cope with protracted warfare, following the conclusion of the campaign against the three Wuhan cities in 1938, and, in particular, as the result of the closing of the sea routes to foreign trade following the outbreak of the European War in September 1939, have dealt a severe blow to Manchoukuo's progress towards independent productivity within the yen bloc, and Manchoukuo has again of late come to rely more and more upon Japan.

The figures for Manchoukuo's trade with the yen bloc countries and third Powers are as follows:

The prime essential for the construction of a sound economic system for Manchoukuo lies in the import of

construction material and funds from the chief of the yen bloc countries, namely Japan. But this importation is conditioned by two factors—the special characteristics of the production industries of Japan and the demands arising from the successful prosecution of Japan's crusade on the Asiatic continent. Thus the export of construction materials and supply of funds to Manchoukuo is not being carried out at the present time with an adequate margin to spare.

Originally the development of Manchoukuo's heavy industries was launched fundamentally, to supplement the structural deficiencies in Japan's industrial makeup. In order, however, to supply the production machinery of Japan and Manchoukuo, the systematic importation of goods from third Powers to feed this machinery must be pursued. A glance at the rate of imports of iron and steel, the basic raw materials for the productive industries of Manchoukuo, reveals an increasing reliance with each passing year upon third Powers outside the yen bloc.

Imports of these materials from the United States of America and indirectly from European countries through Japan fell off markedly last year chiefly for political reasons, such as the abrogation of the Japan-America Treaty of Commerce, Navigation and Friendship and the outbreak of the European War. The urgent need to import materials from third Powers necessary for productivity expansion has unavoidably brought about the drastic limitation of imports of goods for popular consumption. This negative policy of curtailing the imports of consumers' goods for the purpose of increasing the imports of military supplies will of necessity be continued in the future in face of the increasing need for raw materials for development and for construction purposes, and the strengthening of Manchoukuo's wartime structure, and for the execution of

the northern frontier development plan and because of the far-reaching revisions in the Five Year Industrial Expansion Program.

In order to cope with the worsening of Manchoukuo's international accounts as a result of the extremely adverse balance of Manchoukuo's trade with third Powers, the positive promotion of exports to third Powers is at the present moment the most urgent question connected with the destiny of the whole Far East. The question of actively promoting exports abroad must be carried out in close and detailed cooperation with both Japan and China. In this connection, an increase in the export of Manchoukuo's staple products (the three soya bean products—beans, bean cake and oil) to third Powers, is naturally looked for, in view of the importance of these products occupying as they do a dominant position among Manchoukuo produce—as a means of acquiring foreign exchange and consolidating the importation of production resources. The Manchoukuo-Reich and the Japan-Manchoukuo-Italy trade agreements, concluded with the aim of promoting the export of these staple products, mark a transition from free commercial relations to trade on a barter basis. Established in line with the basic policies of world commerce, these agreements have opened up anew a promising future for increased Manchoukuo exports.

MANCHOUKUO-REICH TRADE AGREEMENT

The Manchoukuo-Reich Trade Agreement was concluded at the end of April, 1936 and in May of the same year was extended for three years. In September, 1938, a new agreement-virtually, the old revised and extended, was concluded. With the expiry of the treaty on May 31, 1939, several revisions were made.

From then till the outbreak of the European War

in September of the same year, the treaty proved ex
tremely beneficial to both signatories. For a time,
certain anxiety was felt over the impossibility of co
tinuing the treaty, in face of the developments in th
European conflict and the increasing exposure of the se
transportation routes to various hazards. However
preparations are now being made for the conclusion o
a new agreement when the current treaty expires thi
year, under which a spectacular increase in the com
merce between the two countries in accordance with thi
trade agreement is expected during the next fiscal yea
and in the years to follow.

A glance at the commodities involved in Manchou
kuo-Reich commerce reveals that soya beans compose th
greatest bulk of Manchoukuo's exports to Germany
The remaining items are also solely, Manchoukuo staple
products such as ground-nuts, bean oil, buckwheat etc
On the other hand, such production materials as ma
chinery, iron and steel, metals as well as metal good
compose the overwhelming bulk of Manchoukuo's im
ports from the German Reich. Thus, at a time whe
the demand for construction and development material
is increasingly heavy as a result of the execution of th
Five Year Production Expansion Program and th
Northern Frontier Development Program, Manchoukuo
has been able to insure the imports of these needed
goods. In addition, the trade agreement has contribu
ed to the acquisition of foreign credit as a result of th
increase in the exports of Manchoukuo's agricultura
products to third Powers.

Germany, on the other hand, has been able to co
solidate her position in the still undeveloped markets
East Asia, a jump ahead of other ranking Powers,
the result of this treaty. She has at the same time solv
her domestic question of foodstuffs and fodder throu
the importation of Manchoukuo agricultural produc

The Manchoukuo-Reich Treaty, therefore, is of great significance to both countries.

JAPAN-MANCHOUKUO-ITALY TRADE AGREEMENT

The friendly relations between Japan and Italy, strengthened remarkably following Italy's participation in the Anti-Comintern Pact, have had important repercussions in the economic sphere. The amity between the two nations bore fruit in the conclusion in July, 1938, of the Japan-Manchoukuo-Italy Trade Agreement. For Japan and Manchoukuo, the pact has meant the consolidation of the imports of important and urgent military supplies and the acceleration and promotion of the export of Manchoukuo's staple products. The agreement has been of equal significance for Italy, giving her the opportunity of developing new markets in the Far East and of consolidating her imports of foodstuffs and raw materials. The pact has promoted considerably trade relations between Manchoukuo and Italy.

THE FUTURE OF MANCHOUKUO'S FOREIGN TRADE

For several years in succession prior to the birth of Manchoukuo as a modern state, Manchuria enjoyed an export excess. Immediately following the establishment of the new State Manchoukuo changed from a country with a favourable trade balance to one with a heavy import excess. The factors involved in this radical change have already been explained. But, the considerable increase in imports must be viewed as inevitable in a country newly adopting a large scale program of industrial expansion and development.

The change from the export of capital to the export of commodities as evident in the commercial relations between the Powers and China likewise prevails in the case of Manchoukuo's trade relations with Japan. However, such a condition must not be interpreted as being permament. The projected establishment of the yen bloc, embracing Japan, Manchoukuo and China, as a fruit of the China Incident, promises the early restoration, normal trade relations between Manchoukuo and China.

The most important factor in the future trend of Manchoukuo's foreign trade is the basic policy of yen bloc economy to develop the geographic distribution of productivity, coordinating the resources of Japan, Manchoukuo and China.

As this plan develops pending problems are systematically being settled and a definite commercial relationship is being clarified between the three partner nations.

Supplementing the Reich-Manchoukuo and the Japan-Manchoukuo-Italy trade agreements, a new commercial treaty is about to be concluded with Spain, which will further stimulate the export of surplus raw materials and help to balance Manchoukuo's trade relations with Japan and China. With such prospects, the future of Manchoukuo's foreign trade is promising.

The most important factor determining the future trend of Manchoukuo's foreign trade lies in the character of the basic policy regarding economic construction in the East bloc composed of Japan, Manchoukuo and China. Concretely speaking, the geographical distribution of productive activity, especially in the industrial realm, now inevitably developing of its own accord or about to be established on a strong basis throughout the three countries of Japan, Manchoukuo and China, will be the most important element determining the future of Manchoukuo's foreign trade.

From this point of view, pending problems in the field of production are gradually being settled with the aim of clarifying the various relationships which arise in the interflow of commodities between Japan, Manchoukuo and China. Linked with the promotion of exports through the Manchoukuo-Reich and Japan-Manchoukuo-Italy trade agreements, a new Manchoukuo-Spain treaty of commerce is about to be concluded. The establishment of such an agreement will further contribute to the consolidation of the imports of raw materials as well as accelerating the solution of problems arising from the trade relations between Japan, Manchoukuo and China. With such prospects, much may be expected of the future foreign trade of Manchoukuo.

Values of Exports and Imports: by Countries

TOTAL FROM JANUARY

1 9 3 9

Countries	Total Yuan	Export Yuan	Import Yuan		Balance Yuan
pan	2,062,080,316	521,324,356	1,540,755,960	—	1,019,431,604
Japan Proper	1,837,663,534	428,301,426	1,409,362,108	—	931,060,682
Taiwan	58,804,812	30,305,606	28,449,206	+	1,806,400
Chosen	165,611,970	62,177,324	102,894,646	—	40,177,322
ina	235,843,836	169,193,872	66,649,964	+	102,543,908
North China	198,457,871	147,822,064	50,635,807	+	97,186,257
Central China	36,821,614	20,857,027	15,964,587	+	4,892,440
South China	564,351	514,781	49,570	+	465,211
viet Russia	37,394	14,091	23,303	—	9,212
ngkong	645,614	313,527	332,087	—	18,560
itish India	24,383,813	44,097	24,339,716	—	24,295,619
ench Indo-China	497,842	421	497,421	—	497,000
eat Britain	7,956,592	3,270,380	4,686,212	—	1,415,832
lgium	3,152,639	2,076,037	1,076,602	+	999,435
lland	5,342,009	5,041,467	300,542	+	4,740,925
rmany	102,599,177	50,358,412	52,240,765	—	1,882,353
nmark	2,357,910	1,886,509	471,401	+	1,415,108

Sweden	7,493,649	2,276,283	5,217,362	–	2,941
Norway	2,156,014	1,560,430	595,584	+	964
France	1,989,494	670,328	1,319,166	+	648
Italy	17,018,022	12,658,807	4,359,215	+	8,299
U.S.A.	102,851,913	15,395,939	87,445,974	–	72,060
Canada	2,333,357	514,221	1,819,136	–	1,304
Egypt	44,300,931	44,222,342	78,589	+	44,143
Straits Settlements	3,254,893	266,014	2,988,879	–	2,722
Netherland East Indies	1,065,983	177,805	888,178		710
Australia	2,442,819	224,723	2,218,096	–	1,993
Other Countries	21,036,780	3,226,980	17,809,800	–	14,582
Total	2,650,840,997	834,717,045	1,816,123,952	–	981,406

TOTAL FROM JANUARY

1 9 3 8

Countries	Total Yuan	Export Yuan	Import Yuan		Balance Yuan
Japan	1,410,327,679	416,825,055	993,412,624	–	576,587
Japan Proper	1,269,220,743	346,002,067	923,218,676	–	577,216
Taiwan	34,806,957	21,704,526	13,102,441	+	8,602
Chosen	106,209,969	49,118,462	57,091,507	–	7,973
China	192,398,473	121,682,916	70,715,557	+	50,967
North China	...	...	...		
Central China	...	...	...		
South China	...	...	...		
Soviet Russia	60,886	29,371	31,515	–	2
Hongkong	5,280,191	3,901,704	1,378,487	+	2,523
British India	30,648,946	46,121	30,602,825	–	30,556
French Indo-China	248,241	3,507	244,734	–	241
Great Britain	12,828,334	5,446,588	7,375,746	–	1,929
Belgium	5,465,094	983,165	4,481,929	–	3,498
Holland	8,800,064	8,000,609	799,293	+	7,201
Germany	87,699,671	50,396,029	37,303,726	+	13,092
Denmark	2,423,621	2,019,187	404,434	+	1,614
Sweden	4,034,595	185,530	3,849,056	–	3,663
Norway	1,996,344	1,451,133	545,211	+	905
France	6,578,767	1,511,867	5,066,900	–	3,555
Italy	5,850,146	3,457,080	2,393,086	+	1,063
U.S.A.	104,430,207	11,359,898	93,069,965	–	81,710
Canada	2,969,903	1,882,350	1,085,553	+	7,961
Egypt	98,866,296	93,848,922	17,374	+	93,831
Straits Settlements	2,634,218	183,114	2,451,104	–	2,267
Netherland East Indies	1,229,268	296,660	932,686	–	636
Australia	2,606,293	167,274	2,438,761	–	2,271
Other Countries	17,922,813	1,776,369	16,147,026	–	14,370
Total	2,000,202,050	725,454,449	1,274,747,601	–	549,293,1

EXPORTS BY COMMODITIES

DESCRIPTION OF GOODS	TOTAL FROM JANUARY 1939 Value Yuan	1938 Value Yuan
1. Drugs, Chemicals, Medicines and Compounds or Preparations thereof: Perfumery, Cosmetics, Explosives, Pigments, Paints and Fillers.	23,253,130	25,959,810
2. Foodstuffs, Beverages and Tobacco	371,092,590	347,375,872
3. Animals and Plants, Live, and Animal and Vegetable Products and Manufactures thereof.	60,723,192	53,565,211
4. Oils, Fats, Waxes and Manufactures thereof.	37,346,894	26,835,003
5. Organic Textile Fibres and Manufactures thereof.	29,899,109	21,540,789
6. Tissues and Manufactures thereof	1,676,521	1,879,832
7. Clothing and Accessories thereof, and Articles of Personal Wear.	448,581	958,147
8. Papers, Manufactures thereof, Books and Paintings.	1,453,729	1,171,073
9. Minerals, Ceramic Products and Manufactures thereof.	40,701,385	40,139,782
10. Ores, Metals and Metal Manufactures.	54,129,045	60,354,934
11. Machinery, Vehicles, Vessels and parts thereof.	2,988,016	1,969,175
12. Miscellaneous	142,606,986	84,067,792
GRAND TOTAL	766,319,178	665,817,420

IMPORTS FROM ABROAD BY COMMODITIES

DESCRIPTION OF GOODS	TOTAL FROM JANUARY 1939 Value Yuan	1938 Value Yuan
1. Drugs, Chemicals, Medicines, and Compounds or Preparations thereof: Perfumery, Cosmetics, Explosives, Colouring Matters, Coatings and Filling Matters.	100,922,592	70,869,726
2. Foodstuffs, Beverages and Tobacco	313,502,496	190,491,764

3.	Animals and Plants, Living, and Animal and Vegetable Products and Manufactures thereof.	142,217,924	63,337,641
4.	Oils, Fats, Waxes and Manufactures thereof.	44,740,017	21,581,563
5.	Organic Textile Fibres and Manufactures thereof.	63,376,475	81,873,870
6.	Tissues and Manufactures thereof.	253,645,319	218,378,772
7.	Clothing and Accessories thereof and Articles of Personal Wear	71,281,853	42,672,330
8.	Papers and Manufactures thereof, Books and Paintings.	80,388,629	57,742,360
9.	Minerals, Ceramic Products and Manufactures thereof.	50,867,596	26,990,854
10.	Ores, Metals and Metal Manufactures.	255,441,482	225,666,066
11.	Scientific and Musical Instruments, Firearms, Electro-technical appliances, Vehicles, Vessels, Machinery and Technical Apparatus.	395,205,417	241,158,198
12.	Miscellaneous.	44,468,131	27,975,475
	GRAND TOTAL	1,816,057,931	1,274,738,619

TOTAL VALUE OF EXPORTS AND IMPORTS

	Yuan
Exports	
1936	528,616,536
1937	562,672,492
1938	665,817,420
1939	766,319,178
Imports	
Total Imports	
1936	691,830,312
1937	887,286,830
1938	1,274,738,619
1939	1,816,057,931
Net Imports	
1936	495,229,414
1937	645,490,637
1938	1,024,270,129
1939	1,562,451,069